



# House of Representatives

General Assembly

**File No. 792**

*January Session, 2005*

Substitute House Bill No. 6940

*House of Representatives, May 22, 2005*

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

**AN ACT INCREASING THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED GENERAL FUND SURPLUS IN EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 4-30a of the general statutes is  
2 repealed and the following is substituted in lieu thereof (*Effective July*  
3 *1, 2005*):

4 (a) After the accounts for the General Fund have been closed for  
5 each fiscal year and the Comptroller has determined the amount of  
6 unappropriated surplus in said fund, after any amounts required by  
7 provision of law to be transferred for other purposes have been  
8 deducted, the amount of such surplus shall be transferred by the State  
9 Treasurer to a special fund to be known as the Budget Reserve Fund.  
10 When the amount in said fund equals ten per cent of the net General  
11 Fund appropriations for the fiscal year in progress, no further transfers

12 shall be made by the Treasurer to said fund and the amount of such  
13 surplus in excess of that transferred to said fund shall be deemed to be  
14 appropriated, [to] as the Treasurer deems in the best interests of the  
15 state: (1) To the State Employees Retirement Fund, in addition to the  
16 contributions required pursuant to section 5-156a; [ but not exceeding  
17 five per cent of the unfunded past service liability of the system as set  
18 forth in the most recent actuarial valuation certified by the Retirement  
19 Commission. Such surplus in excess of the amounts transferred to the  
20 Budget Reserve Fund and the state employees retirement system shall  
21 be deemed to be appropriated for: (1) Redeeming] (2) to the  
22 Connecticut teachers' retirement fund, in addition to the contribution  
23 required pursuant to section 10-183z; (3) for the redemption prior to  
24 maturity of any outstanding indebtedness of the state selected by the  
25 Treasurer in the best interests of the state; [(2) purchasing] (4) for the  
26 purchase of outstanding indebtedness of the state in the open market  
27 at such prices and on such terms and conditions as the Treasurer shall  
28 determine to be in the best interests of the state for the purpose of  
29 extinguishing or defeasing such debt; [(3) providing] (5) for the  
30 defeasance of any outstanding indebtedness of the state selected by the  
31 Treasurer in the best interests of the state by irrevocably placing with  
32 an escrow agent in trust an amount to be used solely for, and sufficient  
33 to satisfy, scheduled payments of both interest and principal on such  
34 indebtedness; or [(4)] (6) for any combination of these methods.  
35 Pending the use or application of such amount for the payment of  
36 interest and principal on outstanding indebtedness, such amount may  
37 be invested in (A) direct obligations of the United States government,  
38 including state and local government treasury securities that the  
39 United States Treasury issues specifically to provide state and local  
40 governments with required cash flows at yields that do not exceed  
41 Internal Revenue Service arbitrage limits, (B) obligations guaranteed  
42 by the United States government, and (C) securities backed by United  
43 States government obligations as collateral and for which interest and  
44 principal payments on the collateral generally flow immediately  
45 through to the security holder. The Treasurer shall promptly inform  
46 the chairpersons of the joint standing committees of the General

47 Assembly having cognizance of matters relating to appropriations and  
48 finance, revenue and bonding regarding the use made of  
49 unappropriated surplus pursuant to this subsection.

|   |              |          |
|---|--------------|----------|
| This act shall take effect as follows and shall amend the following sections: |              |          |
| Section 1   | July 1, 2005 | 4-30a(a) |

**FIN**      *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

---

**OFA Fiscal Note****State Impact:**

| Agency Affected | Fund-Effect  | FY 06 \$  | FY 07 \$  |
|-----------------|--------------|-----------|-----------|
| Treasurer       | GF - Savings | See Below | See Below |

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

The bill could result in savings where the Treasurer has determined that the long-term fiscal impact from using General Fund surplus monies to reduce the unfunded liability of the State Employees Retirement Fund and/or the Teachers' Retirement Fund is greater than the use of surplus for the retirement of debt. The average rate of return for the State Employees Retirement Fund and the Teachers' Retirement Fund over the last 10 years is 9%. The average interest rate for General Obligation bonds is currently about 4.5%.

The provision requiring that the Treasurer promptly inform the Appropriations Committee and the Finance, Revenue and Bonding Committee regarding the use made of unappropriated surplus has no fiscal impact.

---

**OFA Bill Analysis**

sHB 6940

***AN ACT INCREASING THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED GENERAL FUND SURPLUS IN EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND.*****SUMMARY:**

Under CGS Sec. 4-30a, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund to raise the balance to 10% of net General Fund appropriations. Any additional surplus must be used to reduce unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by reduction of bonded indebtedness.

This bill allows the Treasurer to decide, after the transfer to the Budget Reserve Fund, whether it is in the state's best interest to use surplus money to reduce: (1) the unfunded pension liability in the State Employees Retirement Fund and the Teachers' Retirement Fund; or (2) bonded indebtedness; or (3) a combination of the two. The Treasurer is required to promptly inform the Appropriations Committee and the Finance, Revenue and Bonding Committee regarding the use made of unappropriated surplus.

The bill also removes the restriction that limits the reduction in unfunded pension liability for the State Employees Retirement Fund to 5% of unfunded prior service liability.

EFFECTIVE DATE: July 1, 2005

**BACKGROUND**

Article 28, Section 18(c) of the Connecticut Constitution requires that unappropriated General Fund surplus go to the Budget Reserve (Rainy Day) Fund or to the reduction of bonded indebtedness or any other purpose authorized by at least three-fifths of the members of each house of the General Assembly. The constitutional amendment became effective 11/25/92.

CGS Sec. 4-30a requires a transfer of unappropriated surplus to the Budget Reserve Fund to raise the balance to 10% of net General Fund appropriations. Any additional surplus must be used to reduce unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by reduction of bonded indebtedness. The section became effective 6/10/92.

Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

The bill permits the Treasurer to decide whether it is in the state's best interest to use unappropriated surplus to reduce unfunded pension liability or bonded indebtedness. Since the bill includes a use not specified in the constitutional amendment (i.e., reduction of the unfunded pension liability), it must be authorized by at least three-fifths of the members of each house of the General Assembly.

### **COMMITTEE ACTION**

#### Appropriations Committee

Joint Favorable Report

Yea 33      Nay 15

#### Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 36      Nay 11